An Analysis of Internal and External Factors Affecting Jerasia Capital Berhad's Profitability Performance

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AN ANALYSIS OF INTERNAL AND EXTERNAL FACTORS AFFECTING JERASIA CAPITAL BERHAD'S PROFITABILITY PERFORMANCE

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Abstract

The purpose of this article is to examine Jerasia Capital Berhad's relative financial performance with its internal factors and external factors. The data collected from annual reports of Jerasia Capital Berhad for the period 2014 to 2018 has been analysed through regression correlation. Return on equity (ROE) is used as the measurement of company's performance whereas risk indicators are selected as internal factors and macroeconomic factors are used as the external factors. When these considerations are analysed, one of the market risk indicator, interest rate which under external factors will most influence the performance. A few recommendations are suggested based on the results.

Keywords: Performance, ROE, External Factors, Interest Rate

1.0 Introduction

1.1. Introduction

This chapter explains the summary of Jerasia Capital Berhad, identifies the research objectives, research questions and scope of study besides addresses the organisation of the report.

1.2 Overview of Jerasia Capital Berhad

According to the study entitled with Prospects for the textile and clothing industry in Malaysia 2018, Malaysia's one of the biggest developed manufacturing sectors is textile and clothing industry. Based on Statista Research Department, 2015, Malaysia's market demand for clothing was once estimated to reach a large amount of seven billion U.S. dollars in 2018. From the above statements, clothing and accessory industry in Malaysia is believed to develop more rapidly over these few years. Hence, Jerasia Capital Berhad, one of the Malaysia's company under clothing and accessory industry was chosen to investigate about the risks faced by the company itself and its performance.

Jerasia Capital Berhad is the investment holding company based in Malaysia founded in the year 2000, where its business activity is operated through garment manufacturing and retail segment. JCB's group of companies is mainly involved in manufacturing, exporting and retailing of apparel and accessories instead of investment holding. There is a lot of brand under JCB which can be separated into two categories; international market and also domestic Malaysian market. The international company's brands include Mango, Nike, Terranova and Calliope while under domestic, there are Ladylike, Milani, Charlie, Trio Kids and Ureka. Since the group run both international and domestic business, Jerasia Capital Berhad not only operates in Malaysia, but also Europe, the United States, Japan and Singapore.

However, Jerasia Capital Berhad are sensitive to various financial risks such as credit risk, liquidity risk, operation risk and market risk. According to Jerasia Capital Berhad's annual reports, Jerasia Capital Berhad is vulnerable to financial risks and the use of financial instruments. Hence, due to the company's policies, Jerasia Capital Berhad was facing less credit risk, liquidity risk and operation risk compared to market risk. Overall, Jerasia Capital Berhad could be said facing to market risks the most. This is because due to its normal trading operations, Jerasia Capital Berhad is vulnerable to foreign currency threat and interest rate risk. Due to the reason of Jerasia Capital Berhad derives majority of its

revenue from the exporting segments, both of the foreign currency and interest rate risk would bring deep impacts toward the company. Hence, in study, whether Jerasia Capital Berhad company's performance was influenced by financial risks especially market risks will be figured out.

1.3 Research Objectives

This study aims to identify the relationships between company's performance and its determinants in Jerasia Capital Berhad. This study's goals are:

1. To identify the internal factors that may influence the performance of the company.
2. To analyse the external factors which may bring direct impact to the company's performance.
3. To examine both internal as well as external factors that may influence the performance of the company.

1.4 Research Questions

The research questions of this study are:

1. Is there a connection between internal factors and company's performance?
2. Is there any relationship among external factors and company's performance?
3. Is there any impact of internal factors and external factors towards the performance of the company?

1.5 Scope of Study

This study covers Jerasia Capital Berhad from the clothing and accessories industry in Malaysia. The company's performance and risks indicators are based on the 5 years' annual report of Jerasia Capital Berhad from 2014 to 2018.

1.6 Organisation of Report

This research is made up of five main chapters. For Chapter 1, it outlines the introduction that provides a summary of the studied company, research objectives, research questions, scope of study as well as the organisation of report. Chapter 2 discusses the risk related literature review and its determinants while research methodology will be presented in Chapter 3. In addition, Chapter 4 presents the research

results and outcomes that include linear regression analysis. Lastly, Chapter 5 provides a summary and conclusion of the analysis with further suggestions.

2.0 Literature Review

Financial risk is every business's one of the major concerns, regardless fields and geographies until Financial Risk Manager (FRM) Exams have gaining a huge recognition among financial experts all around the world (Verma, 2019). Hence, it is very important to understand what risk is and what types of the risks are.

Financial risk is defined as the risk or possibility that a company's cash flow will not be sufficient for the payment of creditors and to fulfil other financial responsibilities (Guzman, n.d.). Therefore, the level of financial risk, different with business risk, is related to the operations of the business itself, but more depends on the amount of debt incurred to finance the operations. This means the higher the level of debt or liability a business is taking, the higher the financial risk it will be in the business. Financial risk can be classified into various types such as credit risk, operation risk, liquidity risk and market risk.

Credit risk refers to the chance of loss due to a borrower failed to repay a loan or meet contractual obligations. The credit risk is considering to be higher if the borrower does not have enough assets or there are no adequate cash flows to pay off the creditors. Credit risk is closely linked to an investment's potential return where bond yields are strongly correlated with its alleged credit risk. A higher credit risk is reflected by investors' higher interest rate demand to borrow their money. However, it was found out that there was a negative correlation between credit risk and interest rate risk where having both of them in portfolio could provide diversification (Tucker, 2015). Generally, there are three types of credit risk. The first category is default risk, the prevalent credit risk. Secondly, credit spread risk which occur due to volatility in the difference between the interest rate of investment and the risk free return rate and the last type is called downgrade risk. Based on financial analysis, credit risk can be measured by evaluating the debt-to-income ratio. The debt-to-income ratio is computed by dividing a company 's ongoing monthly obligations over the gross monthly income. As reasonable credit risks, a debt-to-income ratio below 35% is considered.

Operational risk is the possibility of loss due to inadequate or failed internal processes, individuals and systems or external events (Basel Committe, 2014). A poor operational risk management can bring catastrophic losses not only in monetary sense but in terms of

overall business and reputation (Rouse, 2013). Banks have struggled to control operational risk with a proof of major banks lost nearly $210 billion from operation risk events since 2011 (Huber & Funaro, 2018). Hence, over recent years, management towards operational risk has become more relevant. Due to the constantly changing of operational risk management and environment, management must ensure that Framework's policies, processes and systems remain stable enough (Basel Committee, Principles for the Sound Management of Operational Risk, 2011).

Liquidity risk is the threat that a corporation or a bank may not be able to meet short term financial requirements because of the inability to turn a security into cash without a loss of revenue in the process. There are two basic types of liquidity risk, namely market liquidity risk and funding liquidity risk. Based on the findings of Neoh (2018), the profitability effects on the liquidity risk significantly, so profitability of a business should be reduced by not neglecting the short term cost and obligations to manage the liquidity risk. Besides, another study revealed a significant relationship among profitability and liquidity risk where high levels of accruals quality and timely dividends announcement reduce stocks' liquidity risk while profitability estimation error in a high percentage increases the liquidity risk of the stock (Shiri & Roshandel, 2015). Hence, return on assets (ROA) which can indicate profitability of a business should be measured in order to predict or determine a business's liquidity risk.

Basel Committee on Banking Supervision (2019) defined market risk as the on and off-balance-sheet positions losses resulting from market prices movement. Risks associated with market risk are the risks associated with interest rate of stock and securities in trading book, foreign exchange risk and commodity risk. Market risk is the potential for price changes in a market that causes investment losses and it is often measured with volatility concept that helps to predict the potential price fluctuation of an investment (Spacey, 2015). Usually, market risks are outside the control of the banks, as they are determined by overall economy factors.

Financial performance is a subjective measure of how well an organization can use its assets to generate revenues. A company's financial performance is also used over a given period as a general measure of the overall business's financial health. Investors usually compare similar companies across the same industry using company's performance in order to find out if they should risk their money. While shareholders measure performance is to study how their shares will perform (Cequea, 2017). Profitability such as return on assets

(ROA) and return on equity (ROE) are used the simplest indicator to represent a company's performance generally.

The word governance is defined as the action or manner of governing a state, organization and so on. Corporate governance is defined as the mechanism and framework used to direct and manage the company's business and affairs towards the promotion of corporate stability and transparency with the ultimate goal of achieving long-term shareholder value while taking into account other stakeholders' interests (Securities Commision, 2017). Generally, corporate governance is the system of rules, practices and processes by which a firm is directed and controlled. Effective corporate governance requires a clear understanding of the board, management and shareholders ' respective roles and their relationships with one another. Since corporate governance also offers the basis for achieving organization goals, it encompasses virtually every management area from action plans and internal controls to measuring performance and corporate reporting.

3.0 Methodology

3.1 Introduction

Methodology explains the techniques of performing a study. Sampling techniques, statistical techniques, data analysis, and Statistical Package for Social Science (SPSS) are used in this section.

3.2 Sampling Technique

The population in this study is the clothing and accessories sector in Malaysia. Jerasia Capital Berhad, one of the clothing and accessories company in Malaysia becomes the main focus of this study. Hence, Jerasia Capital Berhad is taken as the sample data. The data that we sampled is mostly taken from its company's annual reports from 2014 to 2018. Since the relationship between performance and its factors are needed to be identified, the recommended dependent variable is ROE whereas the independent variables used are internal factors, external factors, as well as both internal and external factors.

3.3 Statistical Analysis

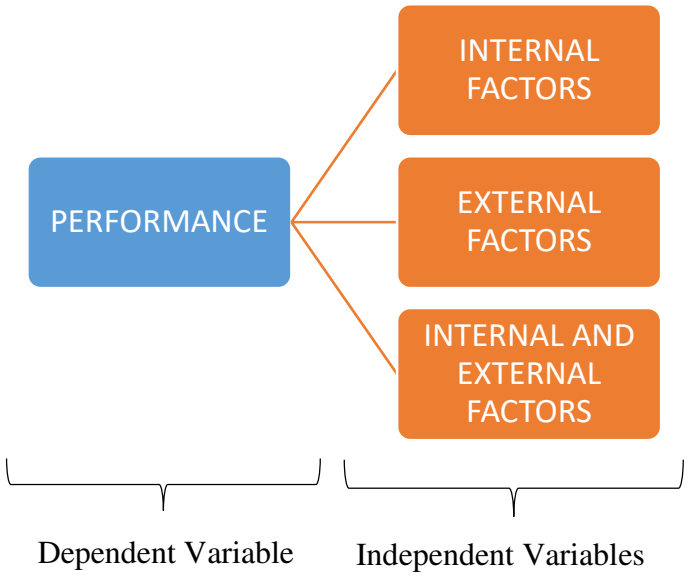
Sample data is collected based on the 5 years' annual reports from 2014 to 2018. The data from income statements and balance sheets is recorded so that the information could be used for analysing the internal factors. Bloomberg is also used as one of the resource for back up and checking purposes. If the data from the annual reports is incomplete, the data

collected from Bloomberg is used. The main concepts of a sound corporate governance which is accountability, transparency, independence, fairness as well as sustainable are also being analysed based on the 5 years' annual report and then the corporate governance index is computed. Besides, the external factors such as the gross domestic product (GDP) growth rate, inflation rate, interest rate, exchange rate and other macroeconomics' indicators are collected using Yahoo Finance, IMF and also Central Bank Malaysia.

The ordinary least-squared linear regression is used as the main procedure. This linear regression model is used to investigate the relationship between the data which is labelled with dependent variables and independent variables. Ordinary least-square is basically the most common estimation method for linear models. This is because ordinary least-squared procedure creates best possible estimates with the smallest variance produced.

3.4 Data Analysis

The research framework is as shown below:



Independent variables are contrasted with the dependent variable and the output must represent the relationship between the variables in SPSS. Since the independent variable is more than 1, multiple linear regression analysis has been used to assess its effect on dependent variables. The multiple linear regression line can be represented in the equation below:

$$\hat{y} = \beta_0 + \beta_1 x_1 + \beta_2 x_2 + \ldots + \beta_i x_i + e$$

where $\hat{y}$ refers to dependent variable, x_i refers to independent variables and β_i is the interception of the linear regression line while e refers to the error.

The measurement of variables is shown as the table below:

No.	Variable	Indication
1	Return on Equity (ROE)	Net income/Total equity
2	Current Ratio	Current Asset/Current Liability
3	Quick Ratio	(Current Asset – Inventory - Prepaid Expenses)/Current Liability
4	Average Collection Period	Account Receivable/(Revenue/360 Days)
5	Debt To Income	Total Liability/Total Income
6	Operational Ratio	Operating Expenses/Net Sales
7	Operating Margin	EBIT/Revenue
8	Corporate Governance Index (CG Index)	Corporate governance elements fulfilled by company over 5 years
9	Gross Domestic Product (GDP)	Malaysia's GDP rate over 5 years
10	Inflation	Malaysia's inflation rate over 5 years
11	Interest Rate	Malaysia's interest rate over 5 years
12	Exchange Rate	Malaysia's exchange rate over 5 years
13	Change of Stock Price (STDV)	Company's change of stock price over 5 years

3.5 Statistical Package for Social Sciences (SPSS)

In this study, results were obtained using IBM SPSS version 25 in the data computation. It is acknowledged that this program is a strong tool that helps researchers perform statistical data analysis. SPSS is widely used in data mining and researches on business studies because it is capable of carrying out descriptive statistics, predicting numeral results and predicting group identification as well. However, SPSS will only be used to evaluate linear regression and comparison between variables.

4.0 Findings and Analysis

4.1 Introduction

This chapter presents the interpretation of SPSS output, findings and analysis using linear regression analysis.

4.2 Internal Factors

Due to the reason of insufficient sample data, none of the independent variables significantly predicts the dependent variable, SPSS displayed only the table of descriptive statistics and correlations.

4.2.1 Descriptive Statistics

Descriptive Statistics

	Mean	Std. Deviation	N
ROE	.045420510109802	.020379452013857	5
CURRENT RATIO	1.568778388265140	.216146761475017	5
QUICK RATIO	.804733457282363	.187735554789710	5
AVERAGE-COLLECTION PERIOD	71.698920134360680	10.902634192160349	5
DEBT TO INCOME	.291852723330645	.052811410317081	5
OPERATIONAL RATIO	.196923769169433	.015505153292086	5
OPERATING MARGIN	.041215622446465	.040315998191056	5
CG Index	1.000000	.0000000	5

Mean is the average value of each variable whereas standard deviation is the dispersion value of the dependent and independent variables. A higher value of standard deviation indicates a larger variability. For ROE, one of the indicator for profitability which may represent company's performance, is having a mean of 0.0454, meaning that every unit of money invested by the company in equity will only generate 0.0454 net income averagely in the 5 years. Next, the mean of current ratio is 1.5688 while mean for quick ratio is 0.8047. Both of the ratio are considered high which means that the company are assumed currently able to fully pay back its current debt. From the table, we also know that the average collection period for the company is 71.7 days while average debt to income is 0.29. For the variables under the category which may represent operational risk, the mean operational ratio is 0.1969 and mean operating margin is 0.0412, which can be concluded that the company managed well in the operation that might minimise the operational risk faced. Besides, the corporate governance is

1 on average. Based on the table, the highest standard deviation falls on average-collection period which indicate that average-collection period has the most violation among other variables. For the standard deviation of corporate governance index which is equal to 0, it means that it remains unchanged over the 5 studied years.

4.2.2 Correlations

Correlations

		ROE	CURRENT RATIO	QUICK RATIO	AVERAGE-COLLECTION PERIOD	DEBT TO INCOME	OPERATIONAL RATIO	OPERATING MARGIN	CG Index
Pearson Correlation	ROE	1.000	.251	.388	.117	-.143	.397	-.368	.
	CURRENT RATIO	.251	1.000	.782	.394	-.869	-.014	.672	.
	QUICK RATIO	.388	.782	1.000	.779	-.605	.449	.149	.
	AVERAGE-COLLECTION PERIOD	.117	.394	.779	1.000	-.038	.207	-.192	.
	DEBT TO INCOME	-.143	-.869	-.605	-.038	1.000	-.200	-.764	.
	OPERATIONAL RATIO	.397	-.014	.449	.207	-.200	1.000	-.406	.
	OPERATING MARGIN	-.368	.672	.149	-.192	-.764	-.406	1.000	.
	CG Index	.	.	.	.	.	.	.	1.000
Sig. (1-tailed)	ROE	.	.342	.259	.426	.409	.254	.271	.000
	CURRENT RATIO	.342	.	.059	.256	.028	.491	.107	.000
	QUICK RATIO	.259	.059	.	.060	.140	.224	.406	.000
	AVERAGE-COLLECTION PERIOD	.426	.256	.060	.	.476	.369	.379	.000
	DEBT TO INCOME	.409	.028	.140	.476	.	.374	.066	.000
	OPERATIONAL RATIO	.254	.491	.224	.369	.374	.	.249	.000
	OPERATING MARGIN	.271	.107	.406	.379	.066	.249	.	.000
	CG Index	.000	.000	.000	.000	.000	.000	.000	.
N	ROE	5	5	5	5	5	5	5	5
	CURRENT RATIO	5	5	5	5	5	5	5	5
	QUICK RATIO	5	5	5	5	5	5	5	5
	AVERAGE-COLLECTION PERIOD	5	5	5	5	5	5	5	5
	DEBT TO INCOME	5	5	5	5	5	5	5	5
	OPERATIONAL RATIO	5	5	5	5	5	5	5	5
	OPERATING MARGIN	5	5	5	5	5	5	5	5
	CG Index	5	5	5	5	5	5	5	5

Using Pearson correlation, the relationship between dependent and independent variables is evaluated. A positive value of Pearson Correlation indicates a positive relationship between the variables while a negative value indicates a negative relationship. A value which exceed positive or negative 0.5 is considered having a strong relationship among the variables.

However, the significance of the relationship cannot be concluded using only Pearson correlation value, so the value of significance is important. If the value Sig(1-tailed) or p-value is less than 0.05, we can conclude that the relationship between the two variables is statistically significant correlation. Instead, a Sig(1-tailed) value which is greater than 0.05 showing that the parameter does not have a significant correlation.

From the table, the independent variables which positively correlated with ROE are current ratio, quick ratio, average collection period operational ratio and CG index. For the negatively correlated variables, there are debt to income and operating margin. However, for all positively or negatively correlated variables, they did not affect ROE significantly due to the significant levels which is greater than 0.05.

4.3 External Factors

4.3.1 Descriptive Statistics

Descriptive Statistics

	Mean	Std. Deviation	N
ROE	.045420510109802	.020379452013857	5
GDP	5.188458164882062	.762951105878942	5
Inflation	2.420	1.0710	5
Interest Rate	2.870151671973237	1.651078101973789	5
Exchange Rate	4.3900	.78112	5
STDV	.016732047861978	.009103620524815	5

The average value of each variable is indicated by mean as shown in the table. Based on the table, the highest mean value falls on GDP, followed by exchange rate, interest rate, inflation, ROE and lastly the change of stock price(STDV). All of the variables having a standard deviation not more than 1 except inflation and interest rate. The highest standard deviation is interest rate which means it may have the most violation among other variables.

4.3.2 Correlations

Correlations

		ROE	GDP	Inflation	Interest Rate	Exchange Rate	STDV
Pearson Correlation	ROE	1.000	-.630	-.666	.913	.424	.809
	GDP	-.630	1.000	.775	-.509	-.683	-.185
	Inflation	-.666	.775	1.000	-.797	-.843	-.122
	Interest Rate	.913	-.509	-.797	1.000	.502	.640
	Exchange Rate	.424	-.683	-.843	.502	1.000	-.164
	STDV	.809	-.185	-.122	.640	-.164	1.000
Sig. (1-tailed)	ROE	.	.127	.110	.015	.238	.049
	GDP	.127	.	.062	.190	.102	.383
	Inflation	.110	.062	.	.053	.036	.423
	Interest Rate	.015	.190	.053	.	.195	.122
	Exchange Rate	.238	.102	.036	.195	.	.396
	STDV	.049	.383	.423	.122	.396	.
N	ROE	5	5	5	5	5	5
	GDP	5	5	5	5	5	5
	Inflation	5	5	5	5	5	5
	Interest Rate	5	5	5	5	5	5
	Exchange Rate	5	5	5	5	5	5
	STDV	5	5	5	5	5	5

From the table, the independent variables which positively correlated with ROE are interest rate, exchange rate and STDV. However, based on the significant level of the variables, exchange rate is not significantly influence the ROE because of its value of significant level which is larger than 0.05. This means that average-collection period cannot be concluded will bring a direct impact towards performance although they are having a strong positive relationship. In the other hand, interest rate and STDV which having a significant level less than 0.05 implies that interest rate and change in stock price will affect ROE directly, whenever interest rate or change in stock price increases, ROA will tend to be increased, but interest rate is more significant because of its lower significant level of only 0.015.

For the variables which negatively correlated with ROE are GDP and inflation. Among both of the variables, none of them has a significant level less than 0.05, which could be concluded they are insignificant to affect ROA negatively.

4.3.3 Model Summary

Model Summary[b]

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.913[a]	.834	.778	.009591917440790	1.468

a. Predictors: (Constant), Interest Rate

b. Dependent Variable: ROE

ROE which may represent company's performance is used as the dependent variable. Since the method selected is Stepwise, SPSS only chose the significant variable to represent the model during the computation in the linear regression analysis. R^2 is the coefficient of determination, which is a ratio of the explained to total variation, while adjusted R^2 is the modified coefficient of determination that has been adjusted for the number of predictors in the model. In this model, interest rate is selected as the independent variable. The coefficient of correlation, R of the model is 0.913 indicating that there is a very strong relationship between the dependent and independent variable. The adjusted R^2 value is 0.778 which means 77.8% variation in ROE can be explained by the interest rate. Hence, the linear regression can be said is fit in the model between ROE and interest rate. However, the Durbin-Watson statistics shows a value of 1.468. Values from 0 to less than 2 in Durbin-Watson statistics indicate a positive autocorrelation based on Investopedia. In overall, interest rate is the most suitable variable to be included as the independent variables compared to other variables of external factor.

4.3.4 ANOVA

ANOVA[a]

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	.001	1	.001	15.057	.030[b]
	Residual	.000	3	.000		
	Total	.002	4			

a. Dependent Variable: ROE

b. Predictors: (Constant), Interest Rate

Only independent variable with significant level which is less than α=0.05 can indicate there is a significant linear relationship between the dependent and independent variables. Based on the ANOVA table, the model only selected interest rate as the predictor which having a significant value of 0.030. This means that there is a significant linear relationship between the dependent and independent variables. Therefore, the model can be concluded having a quite consistent variance that can predicts the outcome significantly.

4.3.5 Coefficients

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.	95.0% Confidence Interval for B	
		B	Std. Error	Beta			Lower Bound	Upper Bound
1	(Constant)	.013	.009		1.394	.258	-.017	.043
	Interest Rate	.011	.003	.913	3.880	.030	.002	.021

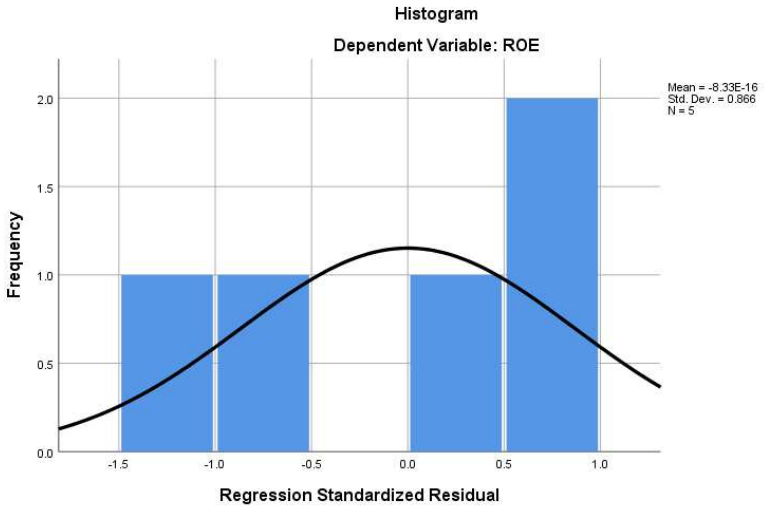
a. Dependent Variable: ROE

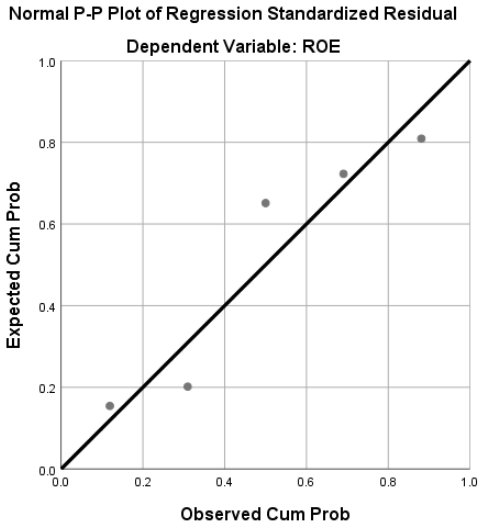
According to the coefficients table, the dependent variable can be predicted by constructing a regression line using the value of *B* under the standardized coefficients. Significant independent variables must be included in the model. From the table, we can know that interest rate having significant value of 0.03 is an important variable to affect ROE. Therefore, the equation of regression line for the model can be represented by $y=0.013+0.011x_1+e$ where y refers to the ROE and x_1 refers to the interest rate. The equation can be explained as when interest rate increases by 1 unit, ROE will increase by 0.011 units.

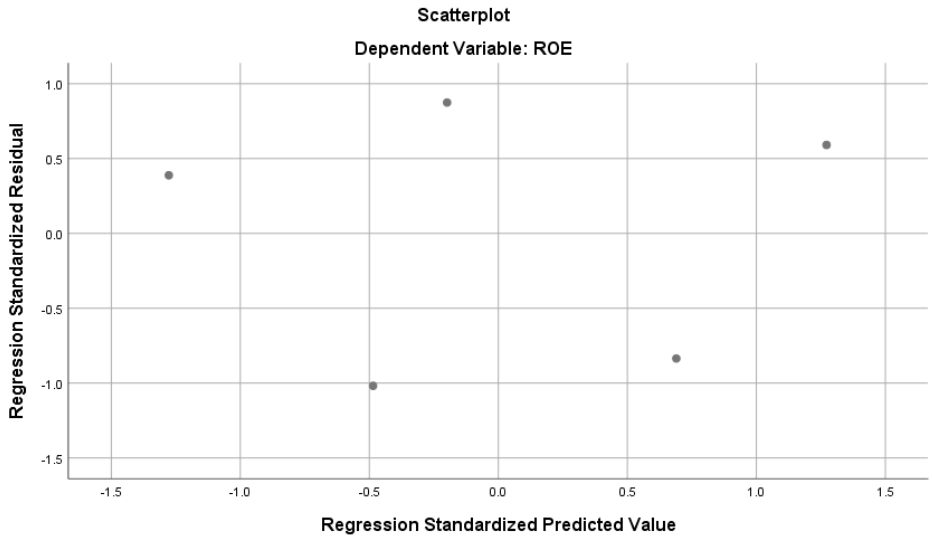
4.3.6 Charts

Due to the reason linear regression model is not always appropriate for data, we should access appropriate model by defining residual and examine residual plots. Residuals is defined as the differences between the true and fitted dependent variable's values for the points in the sample.

The result of residual analysis can be visualized through the charts below such as histograms, normal P-P plots and scatterplot.







4.4 Internal and External Factors

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Interest Rate	2.870151671973237	1.651078101973789	5
Exchange Rate	4.3900	.78112	5
STDV	.016732047861978	.009103620524815	5

All of the average value for each variable is computed and is shown as the mean in the table. Based on the table, the average-collection period still having the highest standard deviation which exceed 10 after considering all internal and external factors of the company, this means that average-collection period has the most violation among all the variables. Corporate governance index which remains constant over the 5 years causes its standard deviation equal to 0.

4.4.2 Correlations

Correlations														
		ROE	CURRENT RATIO	QUICK RATIO	AVERAGE-COLLECTION PERIOD	DEBT TO INCOME	OPERATIONAL RATIO	OPERATING MARGIN	CG Index	GDP	Inflation	Interest Rate	Exchange Rate	STDV
Pearson Correlation	ROE	1.000	.251	.388	.117	-.143	.397	-.368	.	-.630	-.666	.913	.424	.809
	CURRENT RATIO	.251	1.000	.782	.394	-.869	-.014	.672	.	.345	.179	.320	-.640	.618
	QUICK RATIO	.388	.782	1.000	.779	-.605	.449	.149	.	.155	.355	.190	-.661	.840
	AVERAGE-COLLECTION PERIOD	.117	.394	.779	1.000	-.038	.207	-.192	.	.432	.650	-.136	-.607	.621
	DEBT TO INCOME	-.143	-.869	-.605	-.038	1.000	-.200	-.764	.	-.079	-.038	-.219	.565	-.378
	OPERATIONAL RATIO	.397	-.014	.449	.207	-.200	1.000	-.406	.	-.648	-.071	.058	-.057	.421
	OPERATING MARGIN	-.368	.672	.149	-.192	-.764	-.406	1.000	.	.511	.208	-.098	-.555	-.157
	CG Index	.	.	.	.	.	.	.	1.000	.	.	.	.	.
	GDP	-.630	.345	.155	.432	-.079	-.648	.511	.	1.000	.775	-.509	-.683	-.185
	Inflation	-.666	.179	.355	.650	-.038	-.071	.208	.	.775	1.000	-.797	-.843	-.122
	Interest Rate	.913	.320	.190	-.136	-.219	.058	-.098	.	-.509	-.797	1.000	.502	.640
	Exchange Rate	.424	-.640	-.661	-.607	.565	-.057	-.555	.	-.683	-.843	.502	1.000	-.164
	STDV	.809	.618	.840	.621	-.378	.421	-.157	.	-.185	-.122	.640	-.164	1.000
Sig. (1-tailed)	ROE	.	.342	.259	.426	.409	.254	.271	.000	.127	.110	.015	.238	.049
	CURRENT RATIO	.342	.	.059	.256	.028	.491	.107	.000	.285	.387	.300	.123	.133
	QUICK RATIO	.259	.059	.	.060	.140	.224	.406	.000	.402	.279	.380	.112	.038
	AVERAGE-COLLECTION PERIOD	.426	.256	.060	.	.476	.369	.379	.000	.234	.117	.414	.139	.132
	DEBT TO INCOME	.409	.028	.140	.476	.	.374	.066	.000	.450	.476	.362	.161	.265
	OPERATIONAL RATIO	.254	.491	.224	.369	.374	.	.249	.000	.118	.455	.463	.463	.240
	OPERATING MARGIN	.271	.107	.406	.379	.066	.249	.	.000	.190	.369	.438	.166	.401
	CG Index	.000	.000	.000	.000	.000	.000	.000	.	.000	.000	.000	.000	.000
	GDP	.127	.285	.402	.234	.450	.118	.190	.000	.	.062	.190	.102	.383
	Inflation	.110	.387	.279	.117	.476	.455	.369	.000	.062	.	.053	.036	.423

	Interest Rate	.015	.300	.380	.414	.362	.463	.438	.000	.190	.053	.	.195	.122
	Exchange Rate	.238	.123	.112	.139	.161	.463	.166	.000	.102	.036	.195	.	.396
	STDV	.049	.133	.038	.132	.265	.240	.401	.000	.383	.423	.122	.396	.
N	ROE	5	5	5	5	5	5	5	5	5	5	5	5	5
	CURRENT RATIO	5	5	5	5	5	5	5	5	5	5	5	5	5
	QUICK RATIO	5	5	5	5	5	5	5	5	5	5	5	5	5
	AVERAGE-COLLECTION PERIOD	5	5	5	5	5	5	5	5	5	5	5	5	5
	DEBT TO INCOME	5	5	5	5	5	5	5	5	5	5	5	5	5
	OPERATIONAL RATIO	5	5	5	5	5	5	5	5	5	5	5	5	5
	OPERATING MARGIN	5	5	5	5	5	5	5	5	5	5	5	5	5
	CG Index	5	5	5	5	5	5	5	5	5	5	5	5	5
	GDP	5	5	5	5	5	5	5	5	5	5	5	5	5
	Inflation	5	5	5	5	5	5	5	5	5	5	5	5	5
	Interest Rate	5	5	5	5	5	5	5	5	5	5	5	5	5
	Exchange Rate	5	5	5	5	5	5	5	5	5	5	5	5	5
	STDV	5	5	5	5	5	5	5	5	5	5	5	5	5

The positively correlated variables with ROE are current ratio, quick ratio, average collection period, operational ratio, interest rate, exchange rate and STDV. Among these variables, interest rate has the strongest positive relationship with ROE as its Pearson correlation of 0.913 is the most nearest to 1. However, only significant variable is considered to give direct impact towards the dependent variable. By looking at the significant value, interest rate and STDV which having 0.015 and 0.049 as significant values made them become the only two significant variables that positively affect ROE among other variables.

The negatively correlated variables with ROE are debt to income, operating margin, GDP and inflation. However, none of these variables are significantly influence ROE due to their significant levels greater than 0.05.

4.4.3 Model Summary

Model Summary[b]

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.913[a]	.834	.778	.009591917440790	1.468

a. Predictors: (Constant), Interest Rate

b. Dependent Variable: ROE

ROE is used as the dependent variable. Since the method selected is Stepwise, SPSS only chose the significant variable to represent the model during the computation in the linear regression analysis. R^2 is the coefficient of determination, which is a ratio of the explained to total variation, while adjusted R^2 is the modified coefficient of determination that has been adjusted for the number of predictors in the model. In this model, interest rate is selected as the independent variable. The coefficient of correlation, R of the model is 0.913 indicating that there is a very strong relationship between the dependent and independent variable. The adjusted R^2 value is 0.778 which means 77.8% variation in ROE can be explained by the interest rate. Hence, the linear regression can be said is fit in the model between ROE and interest rate. However, the Durbin-Watson statistics shows a value of 1.468. Values from 0 to less than 2 in Durbin-Watson statistics indicate a positive autocorrelation based on Investopedia. In overall, interest rate is the most suitable variable to be included as the independent variables compared to other variables of external factor.

4.4.4 ANOVA

ANOVA[a]

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	.001	1	.001	15.057	.030[b]
	Residual	.000	3	.000		
	Total	.002	4			

a. Dependent Variable: ROE

b. Predictors: (Constant), Interest Rate

Based on the ANOVA table, the model only selected interest rate as the predictor which having a significant value of 0.030. This means that there is a significant linear relationship between the dependent and independent variables. Therefore, the model can be concluded having a quite consistent variance that can predicts the outcome significantly.

4.4.5 Coefficients

Coefficients[a]

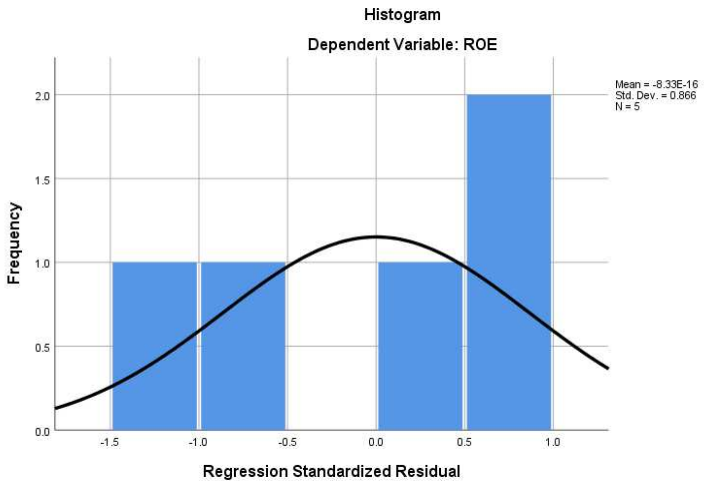
Model		Unstandardized Coefficients		Standardized Coefficients	T	Sig.	95.0% Confidence Interval for B	
		B	Std. Error	Beta			Lower Bound	Upper Bound
1	(Constant)	.013	.009		1.394	.258	-.017	.043
	Interest Rate	.011	.003	.913	3.880	.030	.002	.021

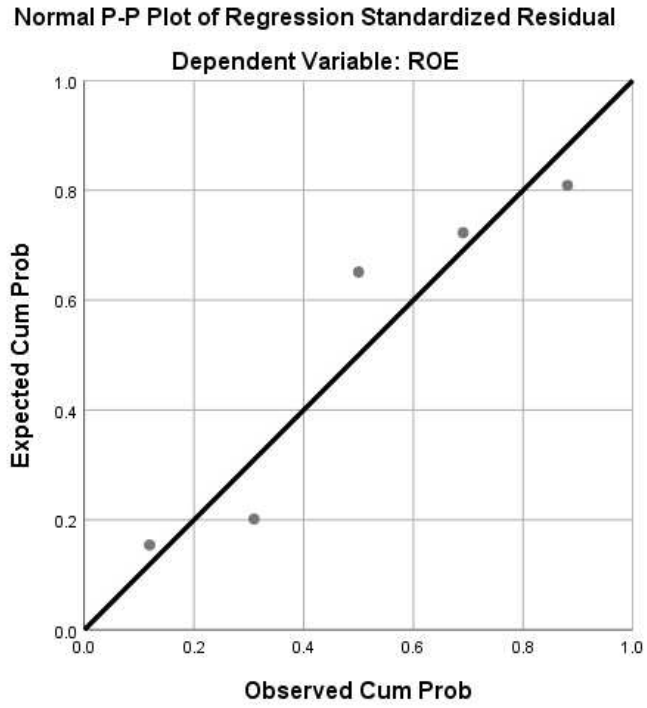
a. Dependent Variable: ROE

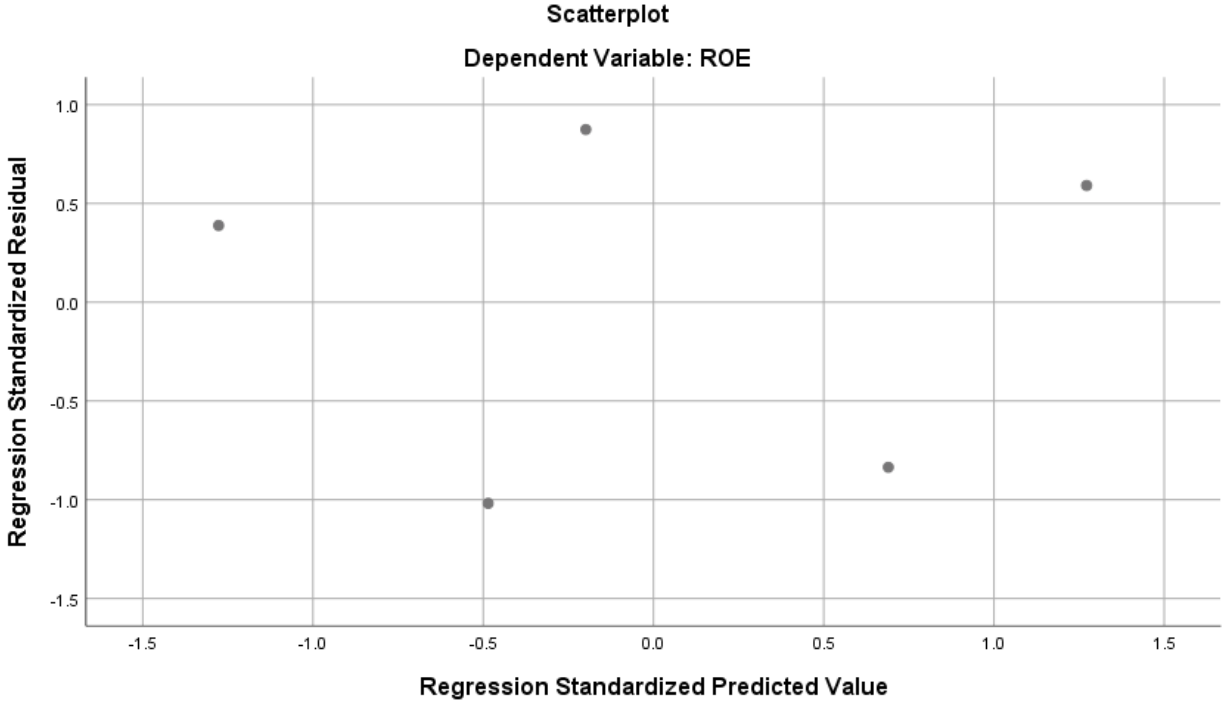
From the table, we can know that interest rate having significant value of 0.03 is an important variable to affect ROE. Therefore, the equation of regression line for the model can be represented by $y=0.013+0.011x_1+e$ where y refers to the ROE and x_1 refers to the interest rate. The equation can be explained as when interest rate increases by 1 unit, ROE will increase by 0.011 units.

4.4.6 Charts

Due to the reason linear regression model is not always appropriate for data, we should access appropriate model by defining residual and examine residual plots. Residuals is defined as the differences between the true and fitted dependent variable's values for the points in the sample. The result of residual analysis can be visualized through the charts below such as histograms, normal P-P plots and scatterplot.




Normal P-P Plot of Regression Standardized Residual
Dependent Variable: ROE
Expected Cum Prob
Observed Cum Prob
0.0
0.2
0.4
0.6
0.8
1.0


Scatterplot
Dependent Variable: ROE
Regression Standardized Residual
Regression Standardized Predicted Value
1.0
0.5
0.0
-0.5
-1.0
-1.5
1.5

5 Conclusion and Recommendation

5.1 Introduction

In this chapter, the results and findings are summarized in the conclusion along with some recommendations.

5.2 Conclusion

The study aims to evaluate the impacts on the Jerasia Capital Berhad's performance from clothing and accessories sector in Malaysia from the internal and external factors of the firms. This analysis is conducted in order to achieve the purposes of the research:

1. To identify the internal factors that may influence the performance of the company.
2. To analyse the external factors which may bring direct impact to the company's performance.
3. To examine both internal as well as external factors that may influence the performance of the company.

There are 3 models in total based on the findings in Chapter 4, since the sample data are evaluated in 3 aspects which are internal factors, external factors, and internal and external factors. The results obtained when the regression model uses external factors is same as the regression model uses both internal and external factors. Therefore, there are sufficient evidence to conclude that the external factor will affect Jerasia Capital Berhad's performance the most. Instead, there is no significant linear relationship between internal factors and Jerasia Capital Berhad's performance.

Among all the factors of Jerasia Capital Berhad, ROE has been positively impacted and influenced by interest rate the most significantly. This means whenever the interest rate increases, the profitability will increase as well and vice versa. This can be supported by the reason of Jerasia Capital Berhad involves in international transactions and derives majority of its revenue from the exporting segments. In another words, Jerasia Capital Berhad is exposed most to the interest rate risk. Since the interest rate risk is classified in market risk, it can be concluded that Jerasia Capital Berhad generally is facing the highest exposure to market risk compared to other financial risk such as operational risk, credit risk and liquidity risk.

5.3 Recommendation

Since we know that interest rate is the most significant factor to affect Jerasia Capital Berhad's performance, interest rate risk must be managed well in order to control the company's profitability. In another words, market risk should be mitigated by company using suitable risk management strategies such as derivatives, futures, options, insurance or securitization techniques.

Besides, as we all know that corporate governance is helpful to ensure corporate success and economic growth. A higher CG index may indicate a better corporate governance as the principles followed by the company is more. According to the findings in Chapter 4, there is a no linear relationship between CG index and ROE due to the constant value of standard deviation. In another words, although corporate governance is practiced by Jerasia Capital Berhad, it didn't help much in improving the company's performance. However, the company is still recommended that the company implement corporate governance during its daily operations, in particular by practicing the five main pillars of corporate governance which is transparency, fairness, independence, accountability and sustainability to maintain the stability of the company. This is because a good practice of corporate governance ensures a sound risk management in the company.

A similar study should be carried out involving a larger sample size in order to make the study to become more reliable.

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Appendices

YEAR		2014	2015	2016	2017	2018
PERFORMANCE	Net Income	3283981	10028509	7112460	3713073	7608462
	Total Assets	195927087	225694737	281876812	311864150	309788649
	ROA	**0.0168**	**0.0444**	**0.0252**	**0.0119**	**0.0246**
	Total Equity	123378384	134140293	141942422	146305337	151451185
	ROE	**0.0266**	**0.0748**	**0.0501**	**0.0254**	**0.0502**
LIQUIDITY RISK	Current Asset	127263572	151226040	187146334	219411831	210722814
	Current Liability	70606102	84026277	126489714	157058705	154357892
	CURRENT RATIO	**1.802**	**1.800**	**1.480**	**1.397**	**1.365**
	Inventory	61791100	62944145	82128234	98696250	129282537
	Prepaid Expenses	5700000	0	0	0	0
	QUICK RATIO	**0.8466**	**1.0506**	**0.8303**	**0.7686**	**0.5276**
CREDIT RISK	Account Receivable	61462670	78053948	94703426	104760325	73282345
	Revenue/360 Days	891349	936756	1398915	1283731	1287635
	AVERAGE-COLLECTION PERIOD	**68.9547**	**83.3236**	**67.6977**	**81.6061**	**56.9124**
	Total Liability	72548703	91554444	139934390	165558813	158337464
	Total Income	321334850	343481108	506781958	467019010	470797838
	DEBT TO INCOME	**0.2258**	**0.2665**	**0.2761**	**0.3545**	**0.3363**
OPERATIONAL RISK	Operating Expenses	59549926	68041847	111585678	88811081	85074724
	Net Sale	320885478	337232251	503609566	462143113	463548555
	OPERATIONAL RATIO	**0.1856**	**0.2018**	**0.2216**	**0.1922**	**0.1835**
	EBIT	36000000	10400000	11200000	5700000	13200000
	Revenue	320885478	337232251	503609566	462143113	463548555
	OPERATING MARGIN	**0.1122**	**0.0308**	**0.0222**	**0.0123**	**0.0285**

Table 1: Internal Factors Calculation of Jerasia Capital Berhad

Year / Principles	2014	2015	2016	2017	2018
Accountability	1	1	1	1	1
Transparency	1	1	1	1	1
Independence	1	1	1	1	1
Fairness	1	1	1	1	1
Sustainable	1	1	1	1	1
CG Index	5/5	5/5	5/5	5/5	5/5

Table 2: Calculation on CG index of Jerasia Capital Berhad

Year	**GDP**	**Inflation**	**Interest Rate**	**Exchange Rate**	**STDV**
2014	6.0	3.1	2.1	3.5	0.01262
2015	5.1	2.1	5.0	4.29	0.03239
2016	4.2	2.1	2.5	4.49	0.01678
2017	5.9	3.8	0.8	4.05	0.01195
2018	4.7	1	4.0	5.62	0.00992

Table 3: Data of Marco-economics Factors